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14 March 1985

MEMORANDUM FOR: Mr. Lester Davis
International Economist
Department of Commerce

FROM :
Senior Economist
Office of European Analysis

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SUBJECT : Impact of US Import Demand on OECD Economic Activity

1. In response to your request for information on the impact of US import demand on economic activity in the rest of the OECD, I am forwarding the attached memorandum, OECD: Impact of the US Import Surge. In general we conclude that the surge of US imports in 1984 has had a very dramatic impact on the economic growth of our trading partners.

2. Please note that the last paragraph describing model simulations is classified but the earlier discussion and data are unclassified. If we can be of further assistance, please contact me at

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Attachment: As stated

The above is confidential.

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OECD: Impact of the US Import Surge

The burst in US economic growth coupled with a relatively high US dollar has resulted in a tremendous surge in US imports, especially in imports from the developed countries. US imports from the OECD rose from about \$139 billion in 1982 to \$150 billion in 1983, and to \$193 billion in 1984. <1> Exports from all of the major European trading partners--except the United Kingdom--experienced gains of over 30 percent in 1984. Japan's rise in exports to the US was also very large, over 36 percent; Canada's gain in 1984 was somewhat less, but Canada experienced a larger increase in exports to the US in 1983 than the other OECD countries did.

US Imports from the OECD
(billions of US dollars)

	1982	1983	1984	
OECD	139.2	149.7	193.2	
EC 10	42.5	43.8	55.7	
West Germany	12.0	12.7	16.5	
United Kingdom	13.1	12.5	14.1	
France	5.5	6.0	7.9	
Italy	5.3	5.5	7.6	
Canada	46.5	52.1	65.3	
Japan	37.7	41.1	55.9	25X1

This tremendous rise in exports to the United States, particularly in 1984, had a very large impact on economic growth in the rest of the OECD. Real GNP growth in the non-US OECD averaged about 1.8 percent in 1983 and 3.4 percent in 1984. This growth was to a large extent related to a rise in exports in general, and to a rise in exports to the US in particular. Total non-US OECD

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<1> The data is from the US country trade tape. US imports are measured F.A.S.

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export growth in 1983 directly accounted for about one-third of the economic growth in 1983 and over one-half in 1984. Exports to the United States directly accounted for about one-sixth of the gain in 1983 and one-third in 1984. In Canada, the impact of US import was much greater than the OECD average. Export growth to United States directly accounted for over one-half of Canadian economic growth in 1983 and all of it in 1984.

Direct Contribution of Change in Export Volume
To Change in Real GNP
(change in export volume as a per cent of real GNP)

	1983	1984
Non-US OECD		
Total Exports	0.6	1.8
Exports to the US	0.3	1.1
GNP Growth	1.8	3.4
EC-10		
Total Exports	0.4	1.4
Exports to the US	0.1	0.6
GNP Growth	1.1	2.2
West Germany		
Total Exports	-0.4	2.3
Exports to the US	0.1	0.7
GNP Growth	1.3	2.5
France		
Total Exports	0.9	0.8
Exports to the US	0.1	0.3
GNP Growth	0.7	1.8
United Kingdom		
Total Exports	0.2	1.5
Exports to the US	Negl.	0.5
GNP Growth	3.2	2.0
Italy		
Total Exports	1.1	1.5
Exports to the US	0.1	0.8
GNP growth	-1.2	3.0
Canada		
Total Exports	1.8	5.2
Exports to the US	1.7	4.3
GNP Growth	3.3	4.3
Japan		
Total Exports	0.8	2.6
Exports to the US	0.3	1.3
GNP Growth	3.0	5.8

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In addition to this direct contribution of export growth to GNP increases, we believe that a substantial multiplier effect exists whereby the additional export earnings are spent and respent locally, boosting each gaining country beyond the original stimulus. Further, each country gains by increasing its exports to the other non-US OECD countries. We estimate that the total impact of the US surge in imports was to boost non-US OECD growth by 0.5 percentage points in 1983 and 1.6 percentage points in 1984.<2> Thus nearly one-half of non-US OECD growth that occurred in 1984 can be attributed to the direct and indirect stimulus of surging US import demand.

Total Impact of US Import Demand on Non-US OECD Economic Growth
(change in real GNP growth rates)

	Non-US OECD	EC-10	West Germany	United Kingdom	France	Italy	Canada	Japan
1983	0.5	0.4	0.4	0.4	0.3	0.5	2.1	0.8
1984	1.6	1.4	1.7	1.3	1.1	2.0	5.0	3.2

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<2> The estimations are based on simulations with the Linked Policy Impact Model (LPIM). To estimate the impact, a counterfactual simulation was performed assuming that US real imports from each country remained at 1982 levels in 1983-84. No changes were introduced regarding monetary or fiscal or exchange rate policy. The results of this counterfactual simulation were compared to the baseline scenario which closely replicates actual economic performance over the 1983-84 period.

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